

Message Text

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ACTION OPIC-06

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C O N F I D E N T I A L CAIRO 17071

EO 11652: GDS
TAGS: EINV, ETRD, PGOV, EG
SUBJ: FORD PROJECT: GOE CONDITIONALLY ACCEPTS FORD POSITION
ON TARIFFS

REF (A) CAIRO 16941, (B) CAIRO 16263,

SUMMARY: FORD REP OUROUSSOFF TOLD AMB OCT 13 THAT GOE HAS
AGREED ACCEPT THE 44 PERCENT DIFFERENTIAL IN CUSTOMS DUTIES
BETWEEN CKD AND BU TRUCKS WHICH FORD HAS SAID IS NECESSARY
TO MAKE PROPOSED JOINT VENTURE A VIABLE PROJECT. SOME CON-
DITIONS WERE POSED, BUT OUROUSSOFF THINKS THESE WILL BE ACCEPTABLE
TO COMPANY. ALTHOUGH MANY DETAILS OF PROJECT WILL REMAIN TO BE
SETTLED, APPARENT RESOLUTION OF ONE OF MOST CONTENTIOUS
ISSUES IN NEGOTIATIONS IS CLEARLY A MAJOR STEP FORWARD.
CHANGE IN GOE POSITION ON TARIFF QUESTION, OUROUSSOFF WAS TOLD,
IS RELATED TO IMPENDING CABINET RESHUFFLE IN WHICH SHAHIN IS
EXPECTED LOSE HIS POSITION. END SUMMARY

1. IN CALL ON AMB OCT 13, FORD REP OUROUSSOFF SAID HE HAD
JUST MET WITH MINECON HAMED EL SAYEH, AT LATTER'S REQUEST,
TO CONTINUE DISCUSSIONS ON REF PROJECT. OUROUSSOFF HAD ALSO
JUST RECEIVED DETAILED FORD RESPONSE TO SERIES OF
OBJECTIONS INCLUDING TARIFF DIFFERENTIAL, WHICH MININDUSTRY
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SHAHIN HAD SENT IN FORM OF TELEGRAM AND WHICH WILLIAMS HAD
UNSECCESFULLY SOUGHT TO RESOLVE IN TALK WITH KAISOUNI IN
LONDON. AS IT TURNED OUT, FORD DOCUMENT WAS NO LONGER NECESSARY
SINCE EL SAYEH ANNOUNCED THAT PRIMIN SALEM AND DEPUTY
PRIMIN KAISOUNI HAD AGREED TO FORTY-FOUR PERCENT TARIFF
DIFFERENTIAL BETWEEN CKD AND BU TRUCKS. (THIS IS IN
ADDITION TO 27 PCT CKD DUTY WHICH GOE WISHES RETAIN; HENCE

TOTAL BU TARIFF WOULD BE 71 PERCENT - PARA 3, REF B). THIS WAS MINIMUM LEVEL FORD HAD INSISTED IS NECESSARY TO PROTECT PROPOSED JOINT VENTURE AND CONSIDERABLY ABOVE THE 25 PERCENT THAT SHAHIN HAD INSISTED IS MAXIMUM GOE SHOULD BE PREPARED TO ACCEPT.

2. SALEM/KAISSOUNI ACCEPTANCE OF FORD POSITION ON TARIFF DIFFERENTIAL CARRIED FOLLOWING CONDITIONS: (A) 44 PERCENT DIFFERENTIAL RATE WILL APPLY ONLY WHEN LOCAL COMPONENT IN TRUCKS REACHES 40 PERCENT; (B) UNTIL THAT TIME, PROTECTION WILL BE SAME AS THAT ACCORDED NASCAR (NORMALLY ABOUT 5 PERCENT) ALTHOUGH OUROUSSOFF INDICATED THAT A RECENT MINISTRY OF TRADE DECISION HAS PRODUCED ANOMALY OF HAVING BU DUTY WHICH ACTUALLY LOWER THAN THAT ON CKD UNITS. THIS IS EXPECTED TO BE ONLY A TEMPORARY SITUATION, HOWEVER. NASCAR HAS NOT BEEN PARTICULARLY CONCERNED ABOUT TARIFF DIFFERENTIAL BECAUSE MOST OF ITS TRUCK PRODUCTION IS SOLD TO MILITARY.) (C) THE 20 PCT RETURN ON EQUITY WHICH HAD EARLIER BEEN AGREED UPON IN PRINCIPLE WILL BE MAXIMUM IN ANY YEAR, NOT AN AVERAGE. IN GIVING OUROUSSOFF LATEST GOE POSITION, EL SAYEH INDICATED GOE READINESS SIGN AGREEMENT SOON AS FORD ACCEPTS PROPOSED TERMS.

3. OUROUSSOFF TELEXED LATEST EGYPTIAN POSITION TO FORD HEADQUARTERS IN DETROIT YESTERDAY AFTERNOON WITH REQUEST FOR EARLY REPLY. OUROUSSOFF EXPRESSED PERSONAL VIEW THAT FORD CONFIDENTIAL

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SHOULD NOT HAVE ANY GREAT DIFFICULTY ACCEPTING CONDITIONS. H NOTED COMPANY HAD ALREADY AGREED EARLIER THAT FULLL DIFFERENTIAL WOULD APPLY ONLY AFTER LOCAL COMPONENTRY REACHES 40 PERCENT. TWENTY PERCENT PROFIT MARGIN CEILING MIGHT BE SOMEWHAT MORE TROUBLESOME, BUT OUROUSSOFF OBSERVED THAT EXISTENCE OF 44 PERCENT PLUS 27 PERCENT TARIFF DIFFERENTIAL WILL ESSENTIALLY RESOLVE PROBLEM OF OBTAINING SATISFACTORY PROFIT LEVEL.

4. OUROUSSOFF WAS SUBSEQUENTLY TOLD BY NASCAR HEAD, GAZARIN, THAT REASON FOR SHIFT OF GOE POSITION IS THAT MININDUSTRY SHAHIN IS EXPECTED TO LOSE HIS POSITION IN UPCOMING CABINET RESHUFFLE (CAIRO 16991). GARARIN IMPLIED, BUT DID NOT SPECIFICALLY SAY SO, THAT HE WAS A CANDINDATE TO REPLACE SHAHIN. AT AMBASSADOR'S RECEPTION FOR JOINT BUSINESS COUNCIL LAST EVENING, EL SAYEH CONFIRMED OUROUSSOFF'S ACCOUNT AS GIVEN ABOVE. EL SAYEH EXPRESSED THE HOPE THAT FORD WILL AGREE TO LATEST GOE OFFER AND THAT THERE WILL BE NO FURTHER "HAGGLING" ON THIS MATTER. HE URGED THAT DEPT ADVISE FORD TO ACCEPT. AMBASSADOR AGREED THAT GOE HAS COME A LONG WAY TO MEETING FORD'S DESIRES, BUT INDICATED THIS IS A MATTER FORD MUST DECIDE. ASKED WHY NOT ONLY

SHAHIN, BUT NOW PRIMIN AND KAISSOUNI INSIST ON 20 PERCENT PROFIT CEILING, EL SAYEH EXPLAINED THIS IN TERMS OF WHAT WE HAVE SUSPECTED ALL ALONG: GOVERNMENT IS CONCERNED THAT ANY HIGHER PROFIT MARGIN, EVEN IF FOR ONE OR TWO YEARS ONLY, WILL ELICIT SHART CRITICISM IN PEOPLES ASSEMBLY, NT ONLY OF COMPANY, BUT ALSO OF CABINET FOR ALLOWING IT.

5. COMMENT: LATEST GOE OFFER SHOULD FACILITATE EARLY SIGNING OF AGREEMENT. ALTHOUGH AGREEMENT ONCE SIGNED, WILL HAVE TO GO TO PEOPLES ASSEMBLY FOR APPROVAL, OIROUSSOFF BELIEVES NEW JOINT VENTURE CAN BEGIN OPERATIONS IMMEDIATELY AFTER SIGNATURE. EVEN AFTER SIGNATURE, HOWEVER, A NUMBER OF ISSUES WILL REMAIN TO BE RESOLVED AS IMPLEMENTATION OF PROJECT PROCEEDS. FORMAL CONTRACT WILLHAVE TO BE NEGOTIATED
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AND SIGNED ESTABLISHING JOINT VENTURE AND THIS COULD BE A PROTRACTED AFFAIR. DEMISE OF SHAHIN, IF THIS MATERIALIZES, MAY MAKE POSSIBLE A MORE POSITIVE GOE APPROACH ON A BROAD RANGE OF MATTERS RELATING TO INDUSTRIAL DEVELOPMENT. WE HAVE HEARD THAT SHAHIN MAY BE NAMED GOVERNOR OF ALEXANDRIA. IF SO, THIS WOULD OFFER HIM CONTINUOUS OPPORTUNNITIES TO HARRASS FORD PROJECT IN MATTERS SUCH AS LAND ACQUISITION, ETC. IN ANY CASE, LATEST DEVELOPMENT IS A DEFINITE STEP FORWARD.
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